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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INCOME STATEMENTS

(In millions, except per share amounts)

Year Ended June 30,	**2011**	**2010**	**2009**
Revenue	**$ 69,943**	$ 62,484	$ 58,437
Operating expenses:			
Cost of revenue	**15,577**	12,395	12,155
Research and development	**9,043**	8,714	9,010
Sales and marketing	**13,940**	13,214	12,879
General and administrative	**4,222**	4,063	4,030
Total operating expenses	**42,782**	38,386	38,074
Operating income	**27,161**	24,098	20,363
Other income (expense)	**910**	915	(542)
Income before income taxes	**28,071**	25,013	19,821
Provision for income taxes	**4,921**	6,253	5,252
Net income	**$ 23,150**	$ 18,760	$ 14,569
Earnings per share:			
Basic	**$ 2.73**	$ 2.13	$ 1.63
Diluted	**$ 2.69**	$ 2.10	$ 1.62
Weighted average shares outstanding:			
Basic	**8,490**	8,813	8,945
Diluted	**8,593**	8,927	8,996
Cash dividends declared per common share	**$ 0.64**	$ 0.52	$ 0.52

See accompanying notes.

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BALANCE SHEETS

(In millions)

June 30,	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ **9,610**	$ 5,505
Short-term investments (including securities loaned of **$1,181** and $62)	**43,162**	31,283
Total cash, cash equivalents, and short-term investments	**52,772**	36,788
Accounts receivable, net of allowance for doubtful accounts of **$333** and $375	**14,987**	13,014
Inventories	**1,372**	740
Deferred income taxes	**2,467**	2,184
Other	**3,320**	2,950
Total current assets	**74,918**	55,676
Property and equipment, net of accumulated depreciation of **$9,829** and $8,629	**8,162**	7,630
Equity and other investments	**10,865**	7,754
Goodwill	**12,581**	12,394
Intangible assets, net	**744**	1,158
Other long-term assets	**1,434**	1,501
Total assets	**$ 108,704**	$ 86,113
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ **4,197**	$ 4,025
Short-term debt	**0**	1,000
Accrued compensation	**3,575**	3,283
Income taxes	**580**	1,074
Short-term unearned revenue	**15,722**	13,652
Securities lending payable	**1,208**	182
Other	**3,492**	2,931
Total current liabilities	**28,774**	26,147
Long-term debt	**11,921**	4,939
Long-term unearned revenue	**1,398**	1,178
Deferred income taxes	**1,456**	229
Other long-term liabilities	**8,072**	7,445
Total liabilities	**51,621**	39,938
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital – shares authorized 24,000; outstanding **8,376** and 8,668	**63,415**	62,856
Retained deficit, including accumulated other comprehensive income of **$1,863** and		

$1,055	**(6,332)**	(16,681)
Total stockholders' equity	**57,083**	46,175
Total liabilities and stockholders' equity	**$ 108,704**	$ 86,113

See accompanying notes.

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CASH FLOWS STATEMENTS

(In millions)

Year Ended June 30,	2011	2010	2009
Operations			
Net income	$ 23,150	$ 18,760	$ 14,569
Adjustments to reconcile net income to net cash from operations:			
Depreciation, amortization, and other	2,766	2,673	2,562
Stock-based compensation expense	2,166	1,891	1,708
Net recognized losses (gains) on investments and derivatives	(362)	(208)	683
Excess tax benefits from stock-based compensation	(17)	(45)	(52)
Deferred income taxes	2	(220)	762
Deferral of unearned revenue	31,227	29,374	24,409
Recognition of unearned revenue	(28,935)	(28,813)	(25,426)
Changes in operating assets and liabilities:			
Accounts receivable	(1,451)	(2,238)	2,215
Inventories	(561)	(44)	255
Other current assets	(1,259)	464	(677)
Other long-term assets	62	(223)	(273)
Accounts payable	58	844	(671)
Other current liabilities	(1,146)	451	(2,700)
Other long-term liabilities	1,294	1,407	1,673
Net cash from operations	26,994	24,073	19,037
Financing			
Short-term debt borrowings (repayments), maturities of 90 days or less, net	(186)	(991)	1,178
Proceeds from issuance of debt, maturities longer than 90 days	6,960	4,167	4,796
Repayments of debt, maturities longer than 90 days	(814)	(2,986)	(228)
Common stock issued	2,422	2,311	579
Common stock repurchased	(11,555)	(11,269)	(9,353)
Common stock cash dividends paid	(5,180)	(4,578)	(4,468)
Excess tax benefits from stock-based compensation	17	45	52
Other	(40)	10	(19)
Net cash used in financing	(8,376)	(13,291)	(7,463)
Investing			
Additions to property and equipment	(2,355)	(1,977)	(3,119)
Acquisition of companies, net of cash acquired	(71)	(245)	(868)
Purchases of investments	(35,993)	(30,168)	(36,850)
Maturities of investments	6,897	7,453	6,191
Sales of investments	15,880	15,125	19,806
Securities lending payable	1,026	(1,502)	(930)

~~Net cash used in investing~~	~~**(14,616)**~~	~~(11,314)~~	~~(15,770)~~
Effect of exchange rates on cash and cash equivalents	**103**	(39)	(67)
Net change in cash and cash equivalents	**4,105**	(571)	(4,263)
Cash and cash equivalents, beginning of period	**5,505**	6,076	10,339
Cash and cash equivalents, end of period	**$ 9,610**	$ 5,505	$ 6,076

See accompanying notes.

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STOCKHOLDERS' EQUITY STATEMENTS

(In millions)

Year Ended June 30,	2011	2010	2009
Common stock and paid-in capital			
Balance, beginning of period	**$ 62,856**	$ 62,382	$ 62,849
Common stock issued	**2,422**	2,311	567
Common stock repurchased	**(3,738)**	(3,113)	(2,611)
Stock-based compensation expense	**2,166**	1,891	1,708
Stock-based compensation income tax deficiencies	**(292)**	(647)	(128)
Other, net	**1**	32	(3)
Balance, end of period	**63,415**	62,856	62,382
Retained deficit			
Balance, beginning of period	**(16,681)**	(22,824)	(26,563)
Net income	**23,150**	18,760	14,569
Other comprehensive income:			
Net unrealized gains (losses) on derivatives	**(627)**	27	302
Net unrealized gains (losses) on investments	**1,054**	265	(233)
Translation adjustments and other	**381**	(206)	(240)
Comprehensive income	**23,958**	18,846	14,398
Common stock cash dividends	**(5,394)**	(4,547)	(4,620)
Common stock repurchased	**(8,215)**	(8,156)	(6,039)
Balance, end of period	**(6,332)**	(16,681)	(22,824)
Total stockholders' equity	**$ 57,083**	$ 46,175	$ 39,558

See accompanying notes.

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING POLICIES

Accounting Principles

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Principles of Consolidation

The financial statements include the accounts of Microsoft Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated. Equity investments through which we exercise significant influence over but do not control the investee and are not the primary beneficiary of the investee's activities are accounted for using the equity method. Investments through which we are not able to exercise significant influence over the investee and which do not have readily determinable fair values are accounted for under the cost method.

Estimates and Assumptions

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples include: estimates of loss contingencies, product warranties, product life cycles, product returns, and stock-based compensation forfeiture rates; assumptions such as the elements comprising a software arrangement, including the distinction between upgrades/enhancements and new products; when technological feasibility is achieved for our products; the potential outcome of future tax consequences of events that have been recognized in our financial statements or tax returns; estimating the fair value and/or goodwill impairment for our reporting units; and determining when investment impairments are other-than-temporary. Actual results and outcomes may differ from management's estimates and assumptions.

Foreign Currencies

Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are recorded to Other Comprehensive Income ("OCI").

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. Revenue generally is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

Revenue for retail packaged products, products licensed to original equipment manufacturers ("OEMs"), and perpetual licenses under certain volume licensing programs generally is recognized as products are shipped or made available. Revenue for products under technology guarantee programs, which provide free or significantly discounted rights to use upcoming new versions of a software product if an end user licenses existing versions of the product during the eligibility period, is allocated between existing product and the new product, and revenue allocated to the new product is deferred until that version is delivered. The revenue allocation is based on vendor-specific objective evidence of fair value of the products.

Certain multi-year licensing arrangements include a perpetual license for current products combined with rights to receive future versions of software products on a when-and-if-available basis ("Software Assurance") and are

accounted for as subscriptions, with billings recorded as unearned revenue and recognized as revenue ratably over the billing coverage period. Revenue from certain arrangements that allow for the use of a product or service over a

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period of time without taking possession of software are also accounted for as subscriptions. Revenue for software products where customers have the right to receive unspecified upgrades/enhancements on a when-and-if-available basis and for which vendor-specific objective evidence of fair value does not exist for the upgrades/enhancements is recognized on a straight-line basis over the estimated life of the software.

Revenue related to our Xbox 360 gaming and entertainment console, Kinect for Xbox 360, games published by us, and other hardware components is generally recognized when ownership is transferred to the resellers. Revenue related to games published by third parties for use on the Xbox 360 platform is recognized when games are manufactured by the game publishers.

Display advertising revenue is recognized as advertisements are displayed. Search advertising revenue is recognized when the ad appears in the search results or when the action necessary to earn the revenue has been completed. Consulting services revenue is recognized as services are rendered, generally based on the negotiated hourly rate in the consulting arrangement and the number of hours worked during the period. Consulting revenue for fixed-price services arrangements is recognized as services are provided. Revenue from prepaid points redeemable for the purchase of software or services is recognized upon redemption of the points and delivery of the software or services.

Cost of Revenue

Cost of revenue includes; manufacturing and distribution costs for products sold and programs licensed; operating costs related to product support service centers and product distribution centers; costs incurred to include software on PCs sold by OEMs, to drive traffic to our Web sites, and to acquire online advertising space ("traffic acquisition costs"); costs incurred to support and maintain Internet-based products and services, including royalties; warranty costs; inventory valuation adjustments; costs associated with the delivery of consulting services; and the amortization of capitalized research and development costs. Capitalized research and development costs are amortized over the estimated lives of the products.

Product Warranty

We provide for the estimated costs of fulfilling our obligations under hardware and software warranties at the time the related revenue is recognized. For hardware warranties, we estimate the costs based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The specific hardware warranty terms and conditions vary depending upon the product sold and the country in which we do business, but generally include parts and labor over a period generally ranging from 90 days to three years. For software warranties, we estimate the costs to provide bug fixes, such as security patches, over the estimated life of the software. We regularly reevaluate our estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Research and Development

Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs, localization costs incurred to translate software for international markets, and the amortization of purchased software code and services content. Such costs related to software development are included in research and development expense until the point that technological feasibility is reached, which for our software products, is generally shortly before the products are released to manufacturing. Once technological feasibility is reached, such costs are capitalized and amortized to cost of revenue over the estimated lives of the products.

Sales and Marketing

Sales and marketing expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with sales and marketing personnel, and the costs of advertising, promotions, trade shows, seminars, and other programs. Advertising costs are expensed as incurred. Advertising expense was $1.9 billion, $1.6 billion, and $1.4 billion in fiscal years 2011, 2010, and 2009, respectively.

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Employee Severance

We record employee severance when a specific plan has been approved by management, the plan has been communicated to employees, and it is unlikely that significant changes will be made to the plan. In January 2009, we announced and implemented a resource management program to reduce discretionary operating expenses, employee headcount, and capital expenditures. Severance expenses associated with this program were $59 million and $330 million in fiscal years 2010 and 2009, respectively, and are included in general and administrative expenses.

Stock-Based Compensation

We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense over the vesting or service period, as applicable, of the stock award (generally four to five years) using the straight-line method.

Employee Stock Purchase Plan

Shares of our common stock may be purchased by employees at three-month intervals at 90% of the fair market value of the stock on the last day of each three-month period. Compensation expense for the employee stock purchase plan is measured as the discount the employee is entitled to upon purchase and is recognized in the period of purchase.

Income Taxes

Income tax expense includes U.S. and international income taxes, the provision for U.S. taxes on undistributed earnings of international subsidiaries not deemed to be permanently invested, and interest and penalties on uncertain tax positions. Certain income and expenses are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. The deferred income taxes are classified as current or long-term based on the classification of the related asset or liability.

Fair Value Measurements

We account for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- *Level 1* – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets. Our Level 1 non-derivative investments primarily include U.S. treasuries, domestic and international equities, and actively traded mutual funds. Our Level 1 derivative assets and liabilities include those actively traded on exchanges.
- *Level 2* – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and forward and spot prices for currencies and commodities. Our Level 2 non-derivative investments consist primarily of corporate notes and bonds, mortgage-backed securities, agency securities, certificates of deposit, and commercial paper. Our

Level 2 derivative assets and liabilities primarily include certain over-the-counter option and swap contracts.

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- *Level 3* – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. Our Level 3 non-derivative assets primarily comprise investments in certain corporate bonds. We value these corporate bonds using internally developed valuation models, inputs to which include interest rate curves, credit spreads, stock prices, and volatilities. Unobservable inputs used in these models are significant to the fair values of the investments. Our Level 3 derivative assets and liabilities primarily comprise derivatives for foreign equities. In certain cases, market-based observable inputs are not available and we use management judgment to develop assumptions to determine fair value for these derivatives.

We measure certain assets, including our cost and equity method investments, at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The fair values of these investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary.

Our current financial liabilities have fair values that approximate their carrying values. Our long-term financial liabilities consist of long-term debt which is recorded on the balance sheet at issuance price less unamortized discount.

Financial Instruments

We consider all highly liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. The fair values of these investments approximate their carrying values. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash equivalents and short-term investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in market value, excluding other-than-temporary impairments, are reflected in OCI.

Equity and other investments classified as long-term include both debt and equity instruments. Debt and publicly-traded equity securities are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in market value, excluding other-than-temporary impairments, are reflected in OCI. Common and preferred stock and other investments that are restricted for more than one year or are not publicly traded are recorded at cost or using the equity method.

We lend certain fixed-income and equity securities to increase investment returns. The loaned securities continue to be carried as investments on our balance sheet. Cash and/or security interests are received as collateral for the loan securities with the amount determined based upon the underlying security lent and the creditworthiness of the borrower. Cash received is recorded as an asset with a corresponding liability.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. Fair value is calculated based on publicly available market information or other estimates determined by management. We employ a systematic methodology on a quarterly basis that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, the duration and extent to which the fair value is less than cost, and for equity securities, our intent and ability to hold, or plans to sell, the investment. For fixed-income securities, we also evaluate whether we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery. We also consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector

performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to other income (expense) and a new cost basis in the investment is established.

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Derivative instruments are recognized as either assets or liabilities and are measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

For a derivative instrument designated as a fair-value hedge, the gain (loss) is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For options designated as fair-value hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings.

For derivative instruments designated as cash-flow hedges, the effective portion of the derivative's gain (loss) is initially reported as a component of OCI and is subsequently recognized in earnings when the hedged exposure is recognized in earnings. For options designated as cash-flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings. Gains (losses) on derivatives representing either hedge components excluded from the assessment of effectiveness or hedge ineffectiveness are recognized in earnings.

For derivative instruments that are not designated as hedges, gains (losses) from changes in fair values are primarily recognized in other income (expense). Other than those derivatives entered into for investment purposes, such as commodity contracts, the gains (losses) are generally economically offset by unrealized gains (losses) in the underlying available-for-sale securities, which are recorded as a component of OCI until the securities are sold or other-than-temporarily impaired, at which time the amounts are moved from OCI into other income (expense).

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on known troubled accounts, historical experience, and other currently available evidence. Activity in the allowance for doubtful accounts was as follows:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Balance, beginning of period	**$ 375**	$ 451	$ 153
Charged to costs and other	**14**	45	360
Write-offs	**(56)**	(121)	(62)
Balance, end of period	**$ 333**	$ 375	$ 451

Inventories

Inventories are stated at the lower of cost or market, using the average cost method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. We regularly review inventory quantities on hand, future purchase commitments with our suppliers, and the estimated utility of our inventory. If our review indicates a reduction in utility below carrying value, we reduce our inventory to a new cost basis through a charge to cost of revenue.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the shorter of the estimated useful life of the asset or the lease term. The estimated useful lives of our property and equipment are

generally as follows: computer software developed or acquired for internal use, three years; computer equipment, two to three years; buildings and improvements, five to 15 years; leasehold improvements, two to 10 years; and furniture and equipment, one to five years. Land is not depreciated.

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Goodwill

Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (May 1 for us) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

Intangible Assets

All of our intangible assets are subject to amortization and are amortized using the straight-line method over their estimated period of benefit, ranging from one to 10 years. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired.

Recently Issued Accounting Standards

Recently adopted accounting pronouncements

On July 1, 2010, we adopted guidance issued by the Financial Accounting Standards Board ("FASB") on revenue recognition. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product are no longer within the scope of the software revenue recognition guidance, and software-enabled products are now subject to other relevant revenue recognition guidance. Additionally, the FASB issued guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2010, we adopted new guidance issued by the FASB on the consolidation of variable interest entities. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. Adoption of the new guidance did not have a material impact on our financial statements.

Recent accounting pronouncements not yet adopted

In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. The new guidance will be effective for us beginning July 1, 2012 and will have presentation changes only.

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance will be effective for us beginning January 1, 2012. Other than requiring additional disclosures, we do not anticipate material impacts on our financial statements upon adoption.

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In January 2010, the FASB issued guidance to amend the disclosure requirements related to fair value measurements. The guidance requires the disclosure of roll forward activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance will become effective for us with the reporting period beginning July 1, 2011. Other than requiring additional disclosures, the adoption of this new guidance will not have a material impact on our financial statements.

NOTE 2 — EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, stock awards, and shared performance stock awards. The components of basic and diluted EPS are as follows:

(In millions, except earnings per share)

Year Ended June 30,	**2011**	**2010**	**2009**
Net income available for common shareholders (A)	**$ 23,150**	$ 18,760	$ 14,569
Weighted average outstanding shares of common stock (B)	**8,490**	8,813	8,945
Dilutive effect of stock-based awards	**103**	114	51
Common stock and common stock equivalents (C)	**8,593**	8,927	8,996
Earnings Per Share			
Basic (A/B)	**$ 2.73**	$ 2.13	$ 1.63
Diluted (A/C)	**$ 2.69**	$ 2.10	$ 1.62

We excluded the following shares underlying stock-based awards from the calculations of diluted EPS because their inclusion would have been anti-dilutive:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Shares excluded from calculations of diluted EPS	**21**	28	342

The decrease in anti-dilutive shares from fiscal year 2009 to 2010 was due mainly to the decrease in employee stock options outstanding.

In June 2010, we issued $1.25 billion of zero-coupon debt securities that are convertible into shares of our common stock if certain conditions are met. As of June 30, 2011, none of these securities had met price or other conditions that would make them eligible for issuance and therefore were excluded from the calculation of either the basic or diluted EPS. See Note 12 – Debt for additional information.

NOTE 3 — OTHER INCOME (EXPENSE)

The components of other income (expense) were as follows:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Dividends and interest income	**$ 900**	$ 843	$ 744
Interest expense	**(295)**	(151)	(38)
Net recognized gains (losses) on investments	**439**	348	(125)
Net losses on derivatives	**(77)**	(140)	(558)
Net gains (losses) on foreign currency remeasurements	**(26)**	1	(509)
Other	**(31)**	14	(56)
Total	**$ 910**	$ 915	$ (542)

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Following are details of net recognized gains (losses) on investments during the periods reported:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Other-than-temporary impairments of investments	**$ (80)**	$ (69)	$ (862)
Realized gains from sales of available-for-sale securities	**734**	605	1,634
Realized losses from sales of available-for-sale securities	**(215)**	(188)	(897)
Total	**$ 439**	$ 348	$ (125)

NOTE 4 — INVESTMENTS

Investment Components

The components of investments, including associated derivatives, were as follows:

(In millions)	**Cost Basis**	**Unrealized Gains**	**Unrealized Losses**	**Recorded Basis**	**Cash and Cash Equivalents**	**Short-term Investments**	**Equity and Other Investments**
June 30, 2011							
Cash	**$ 1,648**	**$ 0**	**$ 0**	**$ 1,648**	**$ 1,648**	**$ 0**	**$ 0**
Mutual funds	**1,752**	**0**	**0**	**1,752**	**1,752**	**0**	**0**
Commercial paper	**639**	**0**	**0**	**639**	**414**	**225**	**0**
Certificates of deposit	**598**	**0**	**0**	**598**	**372**	**226**	**0**
U.S. government and agency securities	**33,607**	**162**	**(7)**	**33,762**	**2,049**	**31,713**	**0**
Foreign government bonds	**658**	**11**	**(2)**	**667**	**0**	**667**	**0**
Mortgage-backed securities	**2,307**	**121**	**(4)**	**2,424**	**0**	**2,424**	**0**
Corporate notes and bonds	**10,575**	**260**	**(11)**	**10,824**	**3,375**	**7,449**	**0**
Municipal securities	**441**	**15**	**(2)**	**454**	**0**	**454**	**0**
Common and preferred stock	**7,925**	**2,483**	**(193)**	**10,215**	**0**	**0**	**10,215**
Other investments	**654**	**0**	**0**	**654**	**0**	**4**	**650**
Total	**$ 60,804**	**$ 3,052**	**$ (219)**	**$ 63,637**	**$ 9,610**	**$ 43,162**	**$ 10,865**

(In millions)	**Cost Basis**	**Unrealized Gains**	**Unrealized Losses**	**Recorded Basis**	**Cash and Cash Equivalents**	**Short-term Investments**	**Equity and Other Investments**
June 30, 2010							
Cash	$ 1,661	$ 0	$ 0	$ 1,661	$ 1,661	$ 0	$ 0
Mutual funds	1,120	0	0	1,120	1,120	0	0

Commercial paper	188	0	0	188	13	175	0
Certificates of deposit	348	0	0	348	68	280	0
U.S. government and agency securities	21,036	167	(1)	21,202	1,822	19,380	0
Foreign government bonds	518	13	0	531	0	531	0
Mortgage-backed securities	3,137	135	(7)	3,265	0	3,265	0
Corporate notes and bonds	7,450	289	(18)	7,721	701	7,020	0
Municipal securities	726	22	(1)	747	120	627	0
Common and preferred stock	6,640	1,030	(418)	7,252	0	0	7,252
Other investments	507	0	0	507	0	5	502
Total	$ 43,331	$ 1,656	$ (445)	$ 44,542	$ 5,505	$ 31,283	$ 7,754

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Unrealized Losses on Investments

Investments with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

(In millions)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2011						
U.S. government and agency securities	$ 484	$ (7)	$ 0	$ 0	$ 484	$ (7)
Foreign government bonds	365	(2)	0	0	365	(2)
Mortgage-backed securities	63	(3)	14	(1)	77	(4)
Corporate notes and bonds	750	(10)	25	(1)	775	(11)
Municipal securities	79	(2)	0	0	79	(2)
Common and preferred stock	1,377	(146)	206	(47)	1,583	(193)
Total	$ 3,118	$ (170)	$ 245	$ (49)	$ 3,363	$ (219)

(In millions)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2010						
U.S. government and agency securities	$ 216	$ (1)	$ 0	$ 0	$ 216	$ (1)
Mortgage-backed securities	105	(6)	18	(1)	123	(7)
Corporate notes and bonds	1,124	(13)	89	(5)	1,213	(18)
Municipal securities	66	(1)	0	0	66	(1)
Common and preferred stock	2,102	(339)	190	(79)	2,292	(418)
Total	$ 3,613	$ (360)	$ 297	$ (85)	$ 3,910	$ (445)

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Unrealized losses from domestic and international equities are due to market price movements. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of June 30, 2011.

At June 30, 2011 and 2010, the recorded bases and estimated fair values of common and preferred stock and other investments that are restricted for more than one year or are not publicly traded were $334 million and $216 million, respectively.

Debt Investment Maturities

(In millions)	Cost Basis	Estimated Fair Value
June 30, 2011		
Due in one year or less	$ 23,982	$ 24,053
Due after one year through five years	19,516	19,733
Due after five years through 10 years	2,516	2,637
Due after 10 years	2,811	2,945
Total	$ 48,825	$ 49,368

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NOTE 5 — DERIVATIVES

We use derivative instruments to manage risks related to foreign currencies, equity prices, interest rates, and credit; to enhance investment returns; and to facilitate portfolio diversification. Our objectives for holding derivatives include reducing, eliminating, and efficiently managing the economic impact of these exposures as effectively as possible. Our derivative programs include strategies that both qualify and do not qualify for hedge accounting treatment. All notional amounts presented below are measured in U.S. currency equivalents.

Foreign Currency

Certain forecasted transactions, assets, and liabilities are exposed to foreign currency risk. We monitor our foreign currency exposures daily to maximize the economic effectiveness of our foreign currency hedge positions. Option and forward contracts are used to hedge a portion of forecasted international revenue for up to three years in the future and are designated as cash-flow hedging instruments. Principal currencies hedged include the euro, Japanese yen, British pound, and Canadian dollar. As of June 30, 2011 and 2010, the total notional amounts of these foreign exchange contracts sold were $10.6 billion and $9.3 billion, respectively. Foreign currency risks related to certain non-U.S. dollar denominated securities are hedged using foreign exchange forward contracts that are designated as fair-value hedging instruments. As of June 30, 2011 and 2010, the total notional amounts of these foreign exchange contracts sold were $572 million and $523 million, respectively. Certain options and forwards not designated as hedging instruments are also used to manage the variability in exchange rates on accounts receivable, cash, and intercompany positions, and to manage other foreign currency exposures. As of June 30, 2011, the total notional amounts of these foreign exchange contracts purchased and sold were $3.9 billion and $7.3 billion, respectively. As of June 30, 2010, the total notional amounts of these foreign exchange contracts purchased and sold were $7.8 billion and $5.3 billion, respectively.

Equity

Securities held in our equity and other investments portfolio are subject to market price risk. Market price risk is managed relative to broad-based global and domestic equity indices using certain convertible preferred investments, options, futures, and swap contracts not designated as hedging instruments. From time to time, to hedge our price risk, we may use and designate equity derivatives as hedging instruments, including puts, calls, swaps, and forwards. As of June 30, 2011, the total notional amounts of designated and non-designated equity contracts purchased and sold were $1.4 billion and $935 million, respectively. As of June 30, 2010, the total notional amounts of designated and non-designated equity contracts purchased and sold were $918 million and $472 million, respectively.

Interest Rate

Securities held in our fixed-income portfolio are subject to different interest rate risks based on their maturities. We manage the average maturity of our fixed-income portfolio to achieve economic returns that correlate to certain broad-based fixed-income indices using exchange-traded option and futures contracts and over-the-counter swap and option contracts, none of which are designated as hedging instruments. As of June 30, 2011, the total notional amounts of fixed-interest rate contracts purchased and sold were $2.3 billion and $2.2 billion, respectively. As of June 30, 2010, the total notional amounts of fixed-interest rate contracts purchased and sold were $3.1 billion and $1.8 billion, respectively. In addition, we use "To Be Announced" forward purchase commitments of mortgage-backed assets to gain exposure to agency mortgage-backed securities. These meet the definition of a derivative instrument in cases where physical delivery of the assets is not taken at the earliest available delivery date. As of June 30, 2011 and 2010, the total notional derivative amount of mortgage contracts purchased were $868 million and $305 million, respectively.

Credit

Our fixed-income portfolio is diversified and consists primarily of investment-grade securities. We use credit default swap contracts, not designated as hedging instruments, to manage credit exposures relative to broad-based indices and to facilitate portfolio diversification. We use credit default swaps as they are a low cost method of managing

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exposure to individual credit risks or groups of credit risks. As of June 30, 2011, the total notional amounts of credit contracts purchased and sold were $532 million and $277 million, respectively. As of June 30, 2010, the total notional amounts of credit contracts purchased and sold were $371 million and $199 million, respectively.

Commodity

We use broad-based commodity exposures to enhance portfolio returns and to facilitate portfolio diversification. We use swap, futures and option contracts, not designated as hedging instruments, to generate and manage exposures to broad-based commodity indices. We use derivatives on commodities as they can be low-cost alternatives to the purchase and storage of a variety of commodities, including, but not limited to, precious metals, energy, and grain. As of June 30, 2011, the total notional amounts of commodity contracts purchased and sold were $1.9 billion and $502 million, respectively. As of June 30, 2010, the total notional amounts of commodity contracts purchased and sold were $1.1 billion and $376 million, respectively.

Credit Risk-Related Contingent Features

Certain of our counterparty agreements for derivative instruments contain provisions that require our issued and outstanding long-term unsecured debt to maintain an investment grade credit rating and require us to maintain a minimum liquidity of $1.0 billion. To the extent we fail to meet these requirements, we will be required to post collateral, similar to the standard convention related to over-the-counter derivatives. As of June 30, 2011, our long-term unsecured debt rating was AAA, and cash investments were in excess of $1.0 billion. As a result, no collateral was required to be posted.

Fair Values of Derivative Instruments

Following are the gross fair values of derivative instruments designated as hedging instruments ("designated hedge derivatives") and not designated as hedging instruments ("non-designated hedge derivatives") that were held at June 30, 2011 and 2010. The fair values exclude the impact of netting derivative assets and liabilities when a legally enforceable master netting agreement exists and fair value adjustments related to our own credit risk and counterparty credit risk.

(In millions)	Foreign Exchange Contracts	Equity Contracts	Interest Rate Contracts	Credit Contracts	Commodity Contracts	Total Derivatives
June 30, 2011						
Assets						
Non-designated hedge derivatives:						
Short-term investments	$ 14	$ 179	$ 0	$ 17	$ 4	$ 214
Other current assets	73	0	0	0	0	73
Total	$ 87	$ 179	$ 0	$ 17	$ 4	$ 287
Designated hedge derivatives:						
Short-term investments	$ 6	$ 0	$ 0	$ 0	$ 0	$ 6
Other current assets	123	0	0	0	0	123
Total	$ 129	$ 0	$ 0	$ 0	$ 0	$ 129
Total assets	$ 216	$ 179	$ 0	$ 17	$ 4	$ 416

Liabilities												
Non-designated hedge derivatives:												
Other current liabilities	$	(91)	$	(12)	$	(9)	$	(19)	$	(4)	$	(135)
Designated hedge derivatives:												
Other current liabilities	$	(128)	$	0	$	0	$	0	$	0	$	(128)
Total liabilities	$	(219)	$	(12)	$	(9)	$	(19)	$	(4)	$	(263)

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(In millions)	Foreign Exchange Contracts	Equity Contracts	Interest Rate Contracts	Credit Contracts	Commodity Contracts	Total Derivatives
June 30, 2010						
Assets						
Non-designated hedge derivatives:						
Short-term investments	$ 15	$ 134	$ 12	$ 7	$ 8	$ 176
Other current assets	34	0	0	0	0	34
Total	$ 49	$ 134	$ 12	$ 7	$ 8	$ 210
Designated hedge derivatives:						
Short-term investments	$ 3	$ 0	$ 0	$ 0	$ 0	$ 3
Other current assets	563	0	0	0	0	563
Total	$ 566	$ 0	$ 0	$ 0	$ 0	$ 566
Total assets	$ 615	$ 134	$ 12	$ 7	$ 8	$ 776
Liabilities						
Non-designated hedge derivatives:						
Other current liabilities	$ (60)	$ (17)	$ (33)	$ (41)	$ (5)	$ (156)
Designated hedge derivatives:						
Other current liabilities	$ (9)	$ 0	$ 0	$ .0	$ 0	$ (9)
Total liabilities	$ (69)	$ (17)	$ (33)	$ (41)	$ (5)	$ (165)

See also Note 4 – Investments and Note 6 – Fair Value Measurements.

Fair Value Hedge Gains (Losses)

We recognized in other income (expense) the following gains (losses) related to fair value hedges and their related hedged items:

(In millions)			
Year Ended June 30,	**2011**	**2010**	**2009**
Foreign Exchange Contracts			
Derivatives	**$ (92)**	$ (57)	$ 121
Hedged items	**85**	60	(120)
Total	**$ (7)**	$ 3	$ 1
Equity Contracts			
Derivatives	**$ 0**	$ 0	$ 191
Hedged items	**0**	0	(211)

Total	$ 0	$ 0	$ (20)

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Cash Flow Hedge Gains (Losses)

We recognized the following gains (losses) related to foreign exchange contracts designated as cash flow hedges (our only cash flow hedges during the periods reported):

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Effective Portion			
Gain (loss) recognized in OCI, net of tax effect of **$(340)**, $188 and $472	**$ (632)**	$ 349	$ 876
Gain (loss) reclassified from OCI into revenue	**$ (7)**	$ 495	$ 884
Amount Excluded from Effectiveness Assessment and Ineffective Portion			
Loss recognized in other income (expense)	**$ (276)**	$ (174)	$ (314)

We estimate that $186 million of net derivative losses included in OCI at June 30, 2011 will be reclassified into earnings within the following 12 months. No significant amounts of gains (losses) were reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during fiscal year 2011.

Non-Designated Derivative Gains (Losses)

Gains (losses) from changes in fair values of derivatives that are not designated as hedges are primarily recognized in other income (expense). These amounts are shown in the table below, with the exception of gains (losses) on derivatives presented in income statement line items other than other income (expense), which were immaterial for all periods presented. Other than those derivatives entered into for investment purposes, such as commodity contracts, the gains (losses) below are generally economically offset by unrealized gains (losses) in the underlying available-for-sale securities.

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Foreign exchange contracts	**$ (27)**	$ 106	$ (234)
Equity contracts	**35**	12	(131)
Interest-rate contracts	**19**	(4)	5
Credit contracts	**24**	22	(18)
Commodity contracts	**148**	(1)	(126)
Total	**$ 199**	$ 135	$ (504)

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NOTE 6 — FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the fair value of our financial instruments that are measured at fair value on a recurring basis:

(In millions)	Level 1	Level 2	Level 3	Gross Fair Value	Netting [a]	Net Fair Value
June 30, 2011						
Assets						
Mutual funds	$ 1,752	$ 0	$ 0	$ 1,752	$ 0	$ 1,752
Commercial paper	0	639	0	639	0	639
Certificates of deposit	0	598	0	598	0	598
U.S. government and agency securities	23,591	10,175	0	33,766	0	33,766
Foreign government bonds	303	367	0	670	0	670
Mortgage-backed securities	0	2,428	0	2,428	0	2,428
Corporate notes and bonds	0	10,600	58	10,658	0	10,658
Municipal securities	0	454	0	454	0	454
Common and preferred stock	9,821	55	5	9,881	0	9,881
Derivatives	8	388	20	416	(204)	212
Total	$ 35,475	$ 25,704	$ 83	$ 61,262	$ (204)	$ 61,058
Liabilities						
Derivatives and other	$ 109	$ 257	$ 0	$ 366	$ (203)	$ 163

(In millions)	Level 1	Level 2	Level 3	Gross Fair Value	Netting [a]	Net Fair Value
June 30, 2010						
Assets						
Mutual funds	$ 1,120	$ 0	$ 0	$ 1,120	$ 0	$ 1,120
Commercial paper	0	172	0	172	0	172
Certificates of deposit	0	348	0	348	0	348
U.S. government and agency securities	16,473	4,756	0	21,229	0	21,229
Foreign government bonds	239	294	0	533	0	533
Mortgage-backed securities	0	3,264	0	3,264	0	3,264
Corporate notes and bonds	0	7,460	167	7,627	0	7,627
Municipal securities	0	747	0	747	0	747
Common and preferred stock	6,988	43	5	7,036	0	7,036
Derivatives	22	745	9	776	(207)	569

Total	$ 24,842	$ 17,829	$ 181	$ 42,852	$ (207)	$ 42,645
Liabilities						
Derivatives and other	$ 85	$ 137	$ 0	$ 222	$ (205)	$ 17

(a) *These amounts represent the impact of netting derivative assets and derivative liabilities when a legally enforceable master netting agreement exists and fair value adjustments related to our own credit risk and counterparty credit risk.*

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The table below reconciles the total Net Fair Value of assets above to the balance sheet presentation of these same assets in Note 4 – Investments for June 30, 2011 and 2010.

(In millions)

June 30,	2011	2010
Net fair value of assets measured at fair value on a recurring basis	**$ 61,058**	$ 42,645
Cash	**1,648**	1,661
Common and preferred stock measured at fair value on a nonrecurring basis	**334**	216
Other investments measured at fair value on a nonrecurring basis	**650**	502
Less derivative assets classified as other current assets	**(54)**	(544)
Other	**1**	62
Recorded basis of investment components	**$ 63,637**	$ 44,542

Changes in Financial Instruments Measured at Level 3 Fair Value on a Recurring Basis

The following tables present the changes during the fiscal years 2011 and 2010 in our Level 3 financial instruments that are measured at fair value on a recurring basis. The majority of these instruments consist of investment securities classified as available-for-sale with changes in fair value included in OCI.

(In millions)	Corporate Notes and Bonds	Common and Preferred Stock	Derivative Assets	Total
Year Ended June 30, 2011				
Balance, beginning of period	**$ 167**	**$ 5**	**$ 9**	**$ 181**
Total realized and unrealized gains (losses):				
Included in other income (expense)	**39**	**0**	**11**	**50**
Included in other comprehensive income	**(63)**	**0**	**0**	**(63)**
Purchases, issuances and settlements	**(85)**	**0**	**0**	**(85)**
Balance, end of period	**$ 58**	**$ 5**	**$ 20**	**$ 83**
Change in unrealized gains (losses) included in other income (expense) related to assets held as of June 30, 2011	**$ 6**	**$ 0**	**$ 11**	**$ 17**

(In millions)	Corporate Notes and Bonds	Common and Preferred Stock	Derivative Assets	Total
Year Ended June 30, 2010				
Balance, beginning of period	$ 253	$ 5	$ 5	$ 263
Total realized and unrealized gains (losses):				
Included in other income (expense)	6	0	4	10
Included in other comprehensive income	(92)	0	0	(92)

Balance, end of period	$ 167	$ 5	$ 9	$ 181
Change in unrealized gains (losses) included in other income (expense) related to assets held as of June 30, 2010	$ 6	$ 0	$ 4	$ 10

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

During fiscal years 2011 and 2010, impairment charges of $2 million and $5 million, respectively, were recognized for certain investments measured at fair value on a nonrecurring basis, as the decline in their respective fair values below their cost was determined to be other than temporary in all instances. At June 30, 2011 and 2010, we held no common and preferred stocks that were required to be measured at fair value on a nonrecurring basis.

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NOTE 7 — INVENTORIES

The components of inventories were as follows:

(In millions)

June 30,	**2011**	**2010**
Raw materials	**$ 232**	$ 172
Work in process	**56**	16
Finished goods	**1,084**	552
Total	**$ 1,372**	$ 740

NOTE 8 — PROPERTY AND EQUIPMENT

The components of property and equipment were as follows:

(In millions)

June 30,	**2011**	**2010**
Land	**$ 533**	$ 526
Buildings and improvements	**6,521**	6,087
Leasehold improvements	**2,345**	2,100
Computer equipment and software	**6,601**	5,673
Furniture and equipment	**1,991**	1,873
Total, at cost	**17,991**	16,259
Accumulated depreciation	**(9,829)**	(8,629)
Total, net	**$ 8,162**	$ 7,630

During fiscal years 2011, 2010, and 2009, depreciation expense was $2.0 billion, $1.8 billion, and $1.7 billion, respectively.

NOTE 9 — BUSINESS COMBINATIONS

During fiscal year 2011, we acquired three entities for total consideration of $75 million, substantially all of which was paid in cash. During fiscal year 2010, we acquired five entities for total consideration of $267 million, substantially all of which was paid in cash. During fiscal year 2010, we also sold three entities for total consideration of $600 million, including Razorfish in the second quarter of fiscal year 2010. During fiscal year 2009, we acquired nine entities for total consideration of $925 million, substantially all of which was paid in cash. These entities have been included in or removed from our consolidated results of operations since their acquisition or sale dates, respectively. Pro forma results of operations have not been presented because the effects of these business combinations, individually and in the aggregate, were not material to our consolidated results of operations.

Definitive Agreement with Skype

On May 10, 2011, we announced that we had entered into a definitive agreement with Skype Global S.à.r.l. ("Skype") under which we would acquire Skype, a leading internet communications company, for $8.5 billion in cash. The acquisition will extend Skype's brand and reach of its network platform, while enhancing our existing portfolio of real-time communications products and services. The acquisition is subject to regulatory approvals and other customary closing conditions. We obtained regulatory approval in the U.S. and expect to obtain all remaining required regulatory approvals during calendar year 2011.

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NOTE 10 — GOODWILL

Changes in the carrying amount of goodwill for fiscal years 2011 and 2010 by segment were as follows:

(In millions)	Balance as of June 30, 2009	Acquisitions	Purchase Accounting Adjustments and Other	Balance as of June 30, 2010	Acquisitions	Purchase Accounting Adjustments and Other	Balance as of June 30, 2011
Windows & Windows Live Division	$ 77	$ 0	$ 0	$ 77	**$ 0**	**$ 12**	**$ 89**
Server and Tools	1,038	82	(2)	1,118	**13**	**8**	**1,139**
Online Services Division	6,657	0	(284)	6,373	**0**	**0**	**6,373**
Microsoft Business Division	3,927	116	(19)	4,024	**4**	**139**	**4,167**
Entertainment and Devices Division	804	0	(2)	802	**30**	**(19)**	**813**
Total	$ 12,503	$ 198	$ (307)	$ 12,394	**$ 47**	**$ 140**	**$ 12,581**

None of the amounts recorded as goodwill are expected to be deductible for tax purposes. The measurement period for purchase price allocations ends as soon as information on the facts and circumstances becomes available, but will not exceed 12 months. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill retroactive to the period in which the acquisition occurred. Any change in the goodwill amounts resulting from foreign currency translations are presented as "other" in the above table. Also included within "other" for fiscal year 2010 is $285 million of goodwill associated with business dispositions. See also Note 9 – Business Combinations.

We test goodwill for impairment annually on May 1 at the reporting unit level using a fair value approach. No impairment of goodwill was identified as of May 1, 2011.

NOTE 11 — INTANGIBLE ASSETS

The components of intangible assets, all of which are finite-lived, were as follows:

(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Year Ended June 30,			**2011**			**2010**
Contract-based	**$ 1,068**	**$ (966)**	**$ 102**	$ 1,075	$ (914)	$ 161
Technology-based [(a)]	**2,356**	**(1,831)**	**525**	2,308	(1,521)	787
Marketing-related	**113**	**(98)**	**15**	114	(86)	28
Customer-related	**326**	**(224)**	**102**	390	(208)	182
Total	**$ 3,863**	**$ (3,119)**	**$ 744**	$ 3,887	$ (2,729)	$ 1,158

(a) *Technology-based intangible assets included $179 million and $249 million as of June 30, 2011 and 2010, respectively, of net carrying amount of software to be sold, leased, or otherwise marketed.*

We estimate that we have no significant residual value related to our intangible assets. No material impairments of intangible assets were identified during any of the periods presented.

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The components of intangible assets acquired during fiscal years 2011 and 2010 were as follows:

(In millions)	Amount	Weighted Average Life	Amount	Weighted Average Life
Year Ended June 30,	**2011**		**2010**	
Contract-based	**$ 0**		$ 3	2 years
Technology-based	**119**	**3 years**	322	4 years
Marketing-related	**1**	**7 years**	0	
Customer-related	**2**	**4 years**	18	5 years
Total	**$ 122**	**3 years**	$ 343	4 years

Intangible assets amortization expense was $537 million, $707 million, and $591 million for fiscal years 2011, 2010, and 2009, respectively. Amortization of capitalized software was $114 million, $97 million, and $65 million for fiscal years 2011, 2010, and 2009, respectively.

The following table outlines the estimated future amortization expense related to intangible assets held at June 30, 2011:

(In millions)	
Year Ending June 30,	
2012	$ 390
2013	242
2014	68
2015	27
2016	10
2017 and thereafter	7
Total	$ 744

NOTE 12 — DEBT

Short-term Debt

During fiscal year 2011, we repaid $1.0 billion of commercial paper, leaving zero outstanding.

On November 5, 2010, our $1.0 billion 364-day credit facility expired. This facility served as a back-up for our commercial paper program. No amounts were drawn against the credit facility during any of the periods presented.

Long-term Debt

As of June 30, 2011, the total carrying value and estimated fair value of our long-term debt, including convertible debt, were $11.9 billion and $12.1 billion, respectively. This is compared to a carrying value and estimated fair value of $4.9 billion and $5.2 billion, respectively, as of June 30, 2010. The estimated fair value is based on quoted prices for our publicly-traded debt as of June 30, 2011 and 2010, as applicable.

Maturities of long-term debt for each of the next five years and thereafter are as follows:

(In millions)	
Year Ending June 30,	
2012	$ 0
2013	1,250
2014	3,000
2015	0
2016	2,500
Thereafter	5,250
Total	$ 12,000

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Cash paid for interest on our debt for fiscal years 2011 and 2010 was $197 million and $145 million, respectively. No cash was paid for debt interest for fiscal year 2009.

The components of long-term debt, the associated interest rates, and the semi-annual interest record and payment dates were as follows as of June 30, 2011:

Due Date	Face Value	Stated Interest Rate	Effective Interest Rate	Interest Record Date	Interest Pay Date	Interest Record Date	Interest Pay Date
	(In millions)						
Notes							
September 27, 2013	$ 1,000	0.875%	1.000%	March 15	March 27	September 15	September 27
June 1, 2014	2,000	2.950%	3.049%	May 15	June 1	November 15	December 1
September 25, 2015	1,750	1.625%	1.795%	March 15	March 25	September 15	September 25
February 8, 2016	750	2.500%	2.642%	February 1	February 8	August 1	August 8
June 1, 2019	1,000	4.200%	4.379%	May 15	June 1	November 15	December 1
October 1, 2020	1,000	3.000%	3.137%	March 15	April 1	September 15	October 1
February 8, 2021	500	4.000%	4.082%	February 1	February 8	August 1	August 8
June 1, 2039	750	5.200%	5.240%	May 15	June 1	November 15	December 1
October 1, 2040	1,000	4.500%	4.567%	March 15	April 1	September 15	October 1
February 8, 2041	1,000	5.300%	5.361%	February 1	February 8	August 1	August 8
Total	10,750						
Convertible Debt							
June 15, 2013	1,250	0.000%	1.849%				
Total unamortized discount	(79)						
Total	$ 11,921						

The components of long-term debt, the associated interest rates, and the semi-annual interest record and payment dates were as follows as of June 30, 2010:

Due Date	Face Value	Stated Interest Rate	Effective Interest Rate	Interest Record Date	Interest Pay Date	Interest Record Date	Interest Pay Date
	(In millions)						
Notes							
June 1, 2014	$ 2,000	2.950%	3.049%	May 15	June 1	November 15	December 1
June 1, 2019	1,000	4.200%	4.379%	May 15	June 1	November 15	December 1
June 1, 2039	750	5.200%	5.240%	May 15	June 1	November 15	December 1
Total	3,750						
Convertible Debt							
June 15, 2013	1,250	0.000%	1.849%				

Total unamortized discount		(61)
Total	$	4,939

Notes

The Notes are senior unsecured obligations and rank equally with our other unsecured and unsubordinated debt outstanding.

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Convertible debt

In June 2010, we issued $1.25 billion of zero coupon convertible unsecured debt due on June 15, 2013 in a private placement offering. Proceeds from the offering were $1.24 billion, net of fees and expenses, which were capitalized.

Each $1,000 principal amount of notes is convertible into 29.94 shares of Microsoft common stock at a conversion price of $33.40 per share. As of June 30, 2011, the net carrying amount of our convertible debt was $1.2 billion and the unamortized discount was $38 million.

Prior to March 15, 2013, the notes will be convertible, only in certain circumstances, into cash and, if applicable, cash, shares of Microsoft's common stock, or a combination thereof, at our election. On or after March 15, 2013, the notes will be convertible at any time. Upon conversion, we will pay cash up to the aggregate principal amount of the notes and pay or deliver cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election.

Because the convertible debt may be wholly or partially settled in cash, we are required to separately account for the liability and equity components of the notes in a manner that reflects our nonconvertible debt borrowing rate when interest costs are recognized in subsequent periods. The net proceeds of $1.24 billion were allocated between debt for $1.18 billion and stockholders' equity for $58 million with the portion in stockholders' equity representing the fair value of the option to convert the debt.

In connection with the issuance of the notes, we entered into capped call transactions with certain option counterparties who are initial purchasers of the notes or their affiliates. The capped call transactions are expected to reduce potential dilution of earnings per share upon conversion of the notes. Under the capped call transactions, we purchased from the option counterparties capped call options that in the aggregate relate to the total number of shares of our common stock underlying the notes, with a strike price equal to the conversion price of the notes and with a cap price equal to $37.16. The purchased capped calls were valued at $40 million and recorded to stockholders' equity.

NOTE 13 — INCOME TAXES

The components of the provision for income taxes were as follows:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Current Taxes			
U.S. federal	**$ 3,108**	$ 4,415	$ 3,159
U.S. state and local	**209**	357	192
International	**1,602**	1,701	1,139
Current taxes	**4,919**	6,473	4,490
Deferred Taxes			
Deferred taxes	**2**	(220)	762
Provision for income taxes	**$ 4,921**	$ 6,253	$ 5,252

U.S. and international components of income before income taxes were as follows:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
U.S.	**$ 8,862**	$ 9,575	$ 5,529
International	**19,209**	15,438	14,292
Income before income taxes	**$ 28,071**	$ 25,013	$ 19,821

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The items accounting for the difference between income taxes computed at the U.S. federal statutory rate and our effective rate were as follows:

Year Ended June 30,	2011	2010	2009
Federal statutory rate	**35.0%**	35.0%	35.0%
Effect of:			
Foreign earnings taxed at lower rates	**(15.6)%**	(12.1)%	(9.3)%
Internal Revenue Service settlement	**(1.7)%**	0%	0%
Other reconciling items, net	**(0.2)%**	2.1%	0.8%
Effective rate	**17.5%**	25.0%	26.5%

The reduction from the federal statutory rate from foreign earnings taxed at lower rates results from producing and distributing our products and services through our foreign regional operations centers in Ireland, Singapore, and Puerto Rico, which are subject to lower income tax rates. In general, other reconciling items consist of interest, U.S. state income taxes, domestic production deductions, and credits. In fiscal years 2011, 2010, and 2009, there were no individually significant other reconciling items. The I.R.S. settlement is discussed below.

The components of the deferred income tax assets and liabilities were as follows:

(In millions)

June 30,	2011	2010
Deferred Income Tax Assets		
Stock-based compensation expense	**$ 1,079**	$ 1,329
Other expense items	**1,411**	1,696
Unearned revenue	**463**	556
Impaired investments	**424**	289
Other revenue items	**69**	80
Deferred income tax assets	**$ 3,446**	$ 3,950
Deferred Income Tax Liabilities		
International earnings	**$ (1,266)**	$ (1,056)
Unrealized gain on investments	**(904)**	(674)
Other	**(265)**	(265)
Deferred income tax liabilities	**(2,435)**	(1,995)
Net deferred income tax assets	**$ 1,011**	$ 1,955
Reported As		
Current deferred income tax assets	**$ 2,467**	$ 2,184
Long-term deferred income tax liabilities	**(1,456)**	(229)

Net deferred income tax assets	**$ 1,011**	$ 1,955

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when the taxes are actually paid or recovered.

We have not provided deferred U.S. income taxes or foreign withholding taxes on temporary differences of approximately $44.8 billion resulting from earnings for certain non-U.S. subsidiaries which are permanently reinvested outside the U.S. The unrecognized deferred tax liability associated with these temporary differences is approximately $14.2 billion.

Income taxes paid were $5.3 billion, $4.1 billion, and $6.6 billion in fiscal years 2011, 2010, and 2009, respectively.

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Uncertain Tax Positions

As of June 30, 2011, we had $6.9 billion of unrecognized tax benefits of which $5.9 billion, if recognized, would affect our effective tax rate. As of June 30, 2010, we had $6.5 billion of unrecognized tax benefits of which $5.6 billion, if recognized, would have affected our effective tax rate.

Interest on unrecognized tax benefits was $38 million, $193 million, and $230 million in fiscal years 2011, 2010, and 2009, respectively. As of June 30, 2011, 2010, and 2009, we had accrued interest related to uncertain tax positions of $785 million, $747 million, and $554 million, respectively, net of federal income tax benefits.

The aggregate changes in the balance of unrecognized tax benefits were as follows:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Balance, beginning of year	**$ 6,542**	$ 5,403	$ 3,195
Decreases related to settlements	**(632)**	(57)	(82)
Increases for tax positions related to the current year	**739**	1,012	2,203
Increases for tax positions related to prior years	**405**	364	239
Decreases for tax positions related to prior years	**(119)**	(166)	(132)
Decreases due to lapsed statute of limitations	**0**	(14)	(20)
Balance, end of year	**$ 6,935**	$ 6,542	$ 5,403

During the third quarter of fiscal year 2011, we reached a partial settlement agreement with the I.R.S. on tax years 2004 to 2006 and recorded a $461 million income tax provision benefit. During the fourth quarter of fiscal year 2011, the I.R.S. completed its examination and issued a Revenue Agent's Report ("RAR") for the remaining unresolved items. We do not agree with the adjustments in the RAR, and we have filed a protest to initiate the administrative appeals process. The proposed adjustments are primarily related to transfer pricing and could have a significant impact on our financial statements if not resolved favorably. We do not believe it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months, as we do not believe the appeals process will be concluded within the next 12 months. We also continue to be subject to examination by the I.R.S. for tax years 2007 to 2010.

We are subject to income tax in many jurisdictions outside the U.S., and certain jurisdictions remain subject to examination and are currently under audit by local tax authorities. The resolutions of these audits are not expected to be material to our financial statements.

NOTE 14 — UNEARNED REVENUE

Unearned revenue comprises mainly unearned revenue from volume licensing programs, as well as payments for offerings for which we have been paid in advance and we earn the revenue when we provide the service or software or otherwise meet the revenue recognition criteria.

Volume Licensing Programs

Unearned revenue from volume licensing programs represents customer billings for multi-year licensing arrangements paid either at inception of the agreement or annually at the beginning of each billing coverage period and accounted

for as subscriptions with revenue recognized ratably over the billing coverage period.

Other

Also included in unearned revenue are payments for post-delivery support and consulting services to be performed in the future; Xbox LIVE subscriptions and prepaid points; Microsoft Dynamics business solutions products; technology guarantee programs; OEM minimum commitments; unspecified upgrades or enhancements of Microsoft Internet Explorer on a when-and-if-available basis for Windows XP; and other offerings for which we have been paid in advance and earn the revenue when we provide the service or software or otherwise meet the revenue recognition criteria.

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The components of unearned revenue were as follows:

(In millions)

June 30,	2011	2010
Volume licensing programs	**$ 14,625**	$ 12,180
Other	**2,495**	2,650
Total	**$ 17,120**	$ 14,830

Unearned revenue by segment was as follows:

(In millions)

June 30,	2011	2010
Windows & Windows Live Division	**$ 1,782**	$ 1,701
Server and Tools	**6,552**	5,282
Microsoft Business Division	**7,950**	7,004
Other segments	**836**	843
Total	**$ 17,120**	$ 14,830

NOTE 15 — OTHER LONG-TERM LIABILITIES

(In millions)

June 30,	2011	2010
Tax contingencies and other tax liabilities	**$ 7,381**	$ 6,887
Legal contingencies	**276**	236
Other	**415**	322
Total	**$ 8,072**	$ 7,445

NOTE 16 — COMMITMENTS AND GUARANTEES

Construction and Operating Leases

We have committed $263 million for constructing new buildings, building improvements and leasehold improvements as of June 30, 2011.

We have operating leases for most U.S. and international sales and support offices and certain equipment. Rental expense for facilities operating leases was $525 million, $530 million, and $475 million, in fiscal years 2011, 2010, and 2009, respectively. Future minimum rental commitments under noncancellable facilities operating leases in place as of June 30, 2011 are as follows:

(In millions)

Year Ending June 30,	
2012	$ 481
2013	396
2014	319
2015	249
2016	163
2017 and thereafter	344
Total	$ 1,952

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Indemnifications

We provide indemnifications of varying scope and size to certain customers against claims of intellectual property infringement made by third parties arising from the use of our products and certain other matters. We evaluate estimated losses for these indemnifications, and we consider such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. To date, we have not encountered significant costs as a result of these obligations and have not accrued any liabilities related to these indemnifications in our financial statements.

Yahoo! Commercial Agreement

On December 4, 2009, we entered into a definitive agreement with Yahoo! whereby Microsoft will provide the exclusive algorithmic and paid search platform for Yahoo! Web sites. The term of the agreement is 10 years subject to termination provisions after five years based on performance.

Microsoft provided Yahoo! with revenue per search guarantees for a period of 18 months after implementation of the Microsoft search ads platform in each country. These guarantees are calculated, paid and trued-up periodically based on the cumulative reduction in revenue per search, if any, during the 18-month period from pre-implementation levels, except in the case of the U.S. and Canada where performance during each of the first two calendar quarters after implementation is independent and not cumulative. This is a rate guarantee and not a guarantee of search volume. We estimate the total cost of the revenue per search guarantees during the guarantee period could range up to $150 million.

Microsoft also agreed to reimburse Yahoo! for certain transition expenses incurred both before and after the effective date of the agreement.

Finally, Microsoft also agreed to reimburse Yahoo! for certain costs of running algorithmic and paid search services prior to migration to Microsoft's platform.

Product Warranty

The changes in our aggregate product warranty liabilities, which are included in other current liabilities and other long term-liabilities on our balance sheets, were as follows:

(In millions)

Year Ended June 30,	**2011**	**2010**
Balance, beginning of year	**$ 240**	$ 342
Accruals for warranties issued	**55**	144
Adjustments to pre-existing warranties	**0**	(2)
Settlements of warranty claims	**(123)**	(244)
Balance, end of year	**$ 172**	$ 240

NOTE 17 — CONTINGENCIES

Government Competition Law Matters

Since 2001, we have been subject to a Consent Decree and Final Judgment ("Final Judgments") that resolved

lawsuits brought by the U.S. Department of Justice, 18 states, and the District of Columbia in two separate actions. The Final Judgments imposed various constraints on our Windows operating system businesses. The Final Judgments expired in May 2011.

In other ongoing investigations, various foreign governments and several state attorneys general have requested information from us concerning competition, privacy, and security issues.

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Antitrust, Unfair Competition, and Overcharge Class Actions

A large number of antitrust and unfair competition class action lawsuits were filed against us in various state, federal, and Canadian courts on behalf of various classes of direct and indirect purchasers of our PC operating system and certain other software products. We obtained dismissals of damages claims of indirect purchasers under federal law and in 15 states. Courts refused to certify classes in two additional states. We have reached agreements to settle all claims that have been made to date in 19 states and the District of Columbia.

The settlements in all states have received final court approval. Under the settlements, generally class members can obtain vouchers that entitle them to be reimbursed for purchases of a wide variety of platform-neutral computer hardware and software. The total value of vouchers that we may issue varies by state. We will make available to certain schools a percentage of those vouchers that are not issued or claimed (one-half to two-thirds depending on the state). The total value of vouchers we ultimately issue will depend on the number of class members who make claims and are issued vouchers. The maximum value of vouchers to be issued is approximately $2.7 billion. The actual costs of these settlements will be less than that maximum amount, depending on the number of class members and schools that are issued and redeem vouchers. We estimate the total cost to resolve all of the state overcharge class action cases will range between $1.9 billion and $2.0 billion. At June 30, 2011, we have recorded a liability related to these claims of approximately $568 million, which reflects our estimated exposure of $1.9 billion less payments made to date of approximately $1.3 billion mostly for vouchers, legal fees, and administrative expenses.

The three cases pending in British Columbia, Ontario, and Quebec, Canada have not been settled. In March 2010, the court in the British Columbia case certified it as a class action. On April 15, 2011, the British Columbia Court of Appeal reversed the class certification ruling and dismissed the case, holding that indirect purchasers do not have a claim. The plaintiffs have sought review by the Canadian Supreme Court. The other two actions have been stayed.

Other Antitrust Litigation and Claims

In November 2004, Novell, Inc. ("Novell") filed a complaint in U.S. District Court for the District of Utah (later transferred to federal court in Maryland), asserting antitrust and unfair competition claims against us related to Novell's ownership of WordPerfect and other productivity applications during the period between June 1994 and March 1996. In June 2005, the trial court granted our motion to dismiss four of six claims of the complaint. In March 2010 the trial court granted summary judgment in favor of Microsoft as to all remaining claims. The court of appeals has reversed that ruling, and the case is scheduled for trial in Utah in October 2011.

Patent and Intellectual Property Claims

In 2003, we filed an action in U.S. District Court in California seeking a declaratory judgment that we do not infringe certain Alcatel-Lucent patents (although this action began before the merger of Alcatel and Lucent in 2006, for simplicity we refer to the post-merger entity of Alcatel-Lucent). In April 2008, a jury returned a verdict in Alcatel-Lucent's favor in a trial on a consolidated group of one video and three user interface patents. The jury concluded that we had infringed two user interface patents and awarded $367 million in damages. In June 2008, the trial judge increased the amount of damages to $512 million to include $145 million of interest. We appealed that award. In December 2008, we entered into a settlement agreement resolving all other litigation pending between Microsoft and Alcatel-Lucent, leaving approximately $500 million remaining in dispute. In September 2009, the court of appeals affirmed the liability award but vacated the verdict and remanded the case to the trial court for a re-trial of the damages ruling, indicating the damages previously awarded were too high. Trial on the remanded damages claim was held in July 2011.

In October 2003, Uniloc USA Inc. ("Uniloc"), a subsidiary of a Singapore-based company, filed a patent infringement

suit in U.S. District Court in Rhode Island, claiming that product activation technology supporting Windows XP and certain other Microsoft programs violated a Uniloc patent. After we obtained a favorable summary judgment that we did not infringe any of the claims of this patent, the court of appeals vacated the trial court decision and remanded

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the case for trial. In April 2009, the jury returned a $388 million verdict against us, including a finding of willful infringement. In September 2009, the district court judge overturned the jury verdict, ruling that the evidence did not support the jury's findings either that Microsoft infringed the patent or was willful. Uniloc appealed, and in January 2011 the court of appeals reversed the district court's finding of non-infringement (thus reinstating the jury verdict of infringement) but affirmed the district court's ruling that Microsoft was not willful and affirmed the district court's grant of a new trial on damages. Uniloc's petition for rehearing of the court of appeals' decision as to damages was denied. A new trial on damages has been set for January 2012.

In March 2007, i4i Limited Partnership ("i4i") sued Microsoft in U.S. District Court in Texas claiming that certain custom XML technology in Word 2003 and 2007 infringed i4i's patent. In May 2009, a jury returned a verdict against us, finding damages of $200 million and that we willfully infringed the patent. In August 2009, the court denied our post-trial motions and awarded enhanced damages of $40 million and prejudgment interest of $37 million. The court also issued a permanent injunction prohibiting additional distribution of the allegedly infringing technology. We appealed and the appellate court stayed the injunction pending our appeal. In December 2009, the court of appeals rejected our appeal and affirmed the trial court's judgment and injunction, except that the court of appeals modified the effective date of the injunction to January 11, 2010. We appealed to the U.S. Supreme Court, and in June 2011 the court affirmed the judgment of the court of appeals.

In October 2010, we filed suit against Motorola with the International Trade Commission ("ITC") and in U.S. District Court in Washington for infringement of nine Microsoft patents by Motorola's Android-based devices. Since then, Microsoft and Motorola have filed additional actions against each other in the ITC and federal courts in Washington, Wisconsin, Florida, and California. Microsoft asserts Motorola's Android-based devices violate 23 of its patents, and Motorola asserts various Microsoft products (including Windows, Windows Phone 7, Windows Mobile 6.5, Xbox, Bing Maps, Hotmail, Messenger, and Exchange Server) violate 21 Motorola patents. Microsoft also claims Motorola has breached its contractual commitments to the Institute of Electrical and Electronics Engineers ("IEEE") and International Telecommunications Union ("ITU") to license identified patents related to wireless and video coding technologies under reasonable and non-discriminatory ("RAND") terms and conditions. Motorola asserts that Microsoft breached contractual commitments to the SD Card Association to license two patents under RAND terms and conditions, and asserts federal antitrust and state unfair business practice claims. Trial in our ITC case is set for August 2011, trial in Motorola's ITC case is set for October 2011, and trial of both parties' patent infringement claims in Florida also is set for October 2011.

In addition to these cases, there are approximately 55 other patent infringement cases pending against Microsoft.

Other

We also are subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. Although management currently believes that resolving claims against us, individually or in aggregate, will not have a material adverse impact on our financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

As of June 30, 2011, we had accrued aggregate liabilities of $693 million in other current liabilities and $276 million in other long-term liabilities for all of the contingent matters described in this note. While we intend to vigorously defend these matters, there exists the possibility of adverse outcomes that we estimate could reach approximately $800 million in aggregate beyond recorded amounts. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact on our financial statements for the period in which the effects become reasonably estimable.

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NOTE 18 — STOCKHOLDERS' EQUITY

Shares Outstanding

Shares of common stock outstanding were as follows:

(In millions)

Year Ended June 30,	2011	2010	2009
Balance, beginning of year	**8,668**	8,908	9,151
Issued	**155**	140	75
Repurchased	**(447)**	(380)	(318)
Balance, end of year	**8,376**	8,668	8,908

Share Repurchases

On September 22, 2008, we announced the completion of the two repurchase programs approved by our Board of Directors during the first quarter of fiscal year 2007 to buy back up to $40.0 billion of Microsoft common stock. On September 22, 2008, we also announced that our Board of Directors approved a new share repurchase program authorizing up to $40.0 billion in share repurchases with an expiration date of September 30, 2013. As of June 30, 2011, approximately $12.2 billion remained of the $40.0 billion approved repurchase amount. The repurchase program may be suspended or discontinued at any time without prior notice.

We repurchased the following shares of common stock under the above-described repurchase plans using cash resources:

(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Year Ended June 30,		2011 (a)		2010 (a)		2009 (b)
First quarter	**163**	**$ 4,000**	58	$ 1,445	223	$ 5,966
Second quarter	**188**	**5,000**	125	3,583	95	2,234
Third quarter	**30**	**827**	67	2,000	0	0
Fourth quarter	**66**	**1,631**	130	3,808	0	0
Total	**447**	**$ 11,458**	380	$ 10,836	318	$ 8,200

(a) *All shares repurchased in fiscal years 2011 and 2010 were repurchased under the plan approved by our Board of Directors on September 22, 2008.*

(b) *Of the 318 million shares of common stock repurchased in fiscal year 2009, 101 million shares were repurchased for $2.7 billion under the plan approved by our Board of Directors during the first quarter of fiscal year 2007. The remaining shares were repurchased under the plan approved by our Board of Directors on September 22, 2008.*

Dividends

In fiscal year 2011, our Board of Directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
			(In millions)	
September 21, 2010	$ 0.16	November 18, 2010	$ 1,363	December 9, 2010
December 15, 2010	$ 0.16	February 17, 2011	$ 1,349	March 10, 2011
March 14, 2011	$ 0.16	May 19, 2011	$ 1,350	June 9, 2011
June 15, 2011	$ 0.16	August 18, 2011	$ 1,340	September 8, 2011

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The dividend declared on June 15, 2011 will be paid after the filing date of this report on Form 10-K and was included in other current liabilities as of June 30, 2011.

In fiscal year 2010, our Board of Directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
			(In millions)	
September 18, 2009	$ 0.13	November 19, 2009	$ 1,152	December 10, 2009
December 9, 2009	$ 0.13	February 18, 2010	$ 1,139	March 11, 2010
March 8, 2010	$ 0.13	May 20, 2010	$ 1,130	June 10, 2010
June 16, 2010	$ 0.13	August 19, 2010	$ 1,118	September 9, 2010

The dividend declared on June 16, 2010 was included in other current liabilities as of June 30, 2010.

NOTE 19 — OTHER COMPREHENSIVE INCOME

The activity in other comprehensive income and related income tax effects were as follows:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Net Unrealized Gains on Derivatives			
Unrealized gains (losses), net of tax effects of **$(340)**, $188, and $472	**$ (632)**	$ 349	$ 876
Reclassification adjustment for gains included in net income, net of tax effects of **$2**, $(173), and $(309)	**5**	(322)	(574)
Net unrealized gains on derivatives	**$ (627)**	$ 27	$ 302
Net Unrealized Gains (Losses) on Investments			
Unrealized gains (losses), net of tax effects of **$726**, $263, and $(142)	**$ 1,349**	$ 488	$ (263)
Reclassification adjustment for losses (gains) included in net income, net of tax effects of **$(159)**, $(120), and $16	**(295)**	(223)	30
Net unrealized gains (losses) on investments	**1,054**	265	(233)
Translation adjustments and other, net of tax effects of **$205**, $(103) and $(133)	**381**	(206)	(240)
Other comprehensive income (loss)	**$ 808**	$ 86	$ (171)

The components of accumulated other comprehensive income were as follows:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Net unrealized gains (losses) on derivatives	**$ (163)**	$ 464	$ 437

Net unrealized gains on investments	**1,821**	767	502
Translation adjustments and other	**205**	(176)	30
Accumulated other comprehensive income	**$ 1,863**	$ 1,055	$ 969

NOTE 20 — EMPLOYEE STOCK AND SAVINGS PLANS

We grant stock-based compensation to directors and employees. At June 30, 2011, an aggregate of 583 million shares were authorized for future grant under our stock plans, covering stock options, stock awards, and shared performance stock awards, and excluding shares reserved for issuance under our employee stock purchase plan. Awards that expire or are canceled without delivery of shares generally become available for issuance under the plans. We issue new shares of Microsoft common stock to satisfy exercises and vestings of awards granted under all of our stock plans.

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Stock-based compensation expense and related income tax benefits were as follows:

(In millions)

Year Ended June 30,	2011	2010	2009
Stock-based compensation expense	**$ 2,166**	$ 1,891	$ 1,708
Income tax benefits related to stock-based compensation	**$ 758**	$ 662	$ 598

Stock Plans (Excluding Stock Options)

Stock awards

Stock awards ("SAs") are grants that entitle the holder to shares of Microsoft common stock as the award vests. Our SAs generally vest over a five-year period.

Shared performance stock awards

Shared performance stock awards ("SPSAs") are a form of SA in which the number of shares ultimately received depends on our business performance against specified performance targets.

We granted SPSAs for fiscal years 2011, 2010, and 2009 with performance periods of July 1, 2010 through June 30, 2011, July 1, 2009 through June 30, 2010, and July 1, 2008 through June 30, 2009, respectively. In August following the end of each performance period, the number of shares of stock subject to the award is determined by multiplying the target award by a percentage ranging from 0% to 150%. The percentage is based on performance metrics for the performance period, as determined by the Compensation Committee of the Board of Directors in its sole discretion. An additional number of shares, approximately 12% of the total target SPSAs, are available as additional awards to participants based on individual performance. One-quarter of the shares of stock subject to each award vest following the end of the performance period, and an additional one-quarter of the shares vest on each of the following three anniversaries of the grant date.

Executive Officer Incentive Plan

Under the Executive Officer Incentive Plan ("EOIP"), the Compensation Committee awards performance-based compensation to executive officers of the Company for specified performance periods. During the periods reported, executive officers were eligible to receive annual awards comprised of cash and SAs from an aggregate incentive pool equal to a percentage of the Company's operating income. For fiscal years 2011, 2010, and 2009, the pool was 0.25%, 0.45%, and 0.35% of operating income, respectively.

In September following the end of the fiscal year, each executive officer may receive a combined cash and SA award with a total value equal to a fixed percentage of the aggregate pool. The fixed percentage ranges between 0% and 150% of a target based on an assessment of the executive officer's performance during the prior fiscal year. Following approval of the awards, 20% of the award is payable to the executive officers in cash, and the remaining 80% is converted into an SA for shares of Microsoft common stock. The number of shares subject to the SA portion of the award is determined by dividing the value of 80% of the total award by the closing price of Microsoft common stock on the last business day in August of each year. The SA portion of the award vests one-quarter immediately after the award is approved following fiscal year-end and one-quarter on August 31 of each of the following three years.

Activity for all stock plans

The fair value of each award is estimated on the date of grant using the following assumptions:

Year Ended June 30,	2011	2010	2009
Dividends per share (quarterly amounts)	**$ 0.13 – $ 0.16**	$ 0.13	$ 0.11 - $ 0.13
Interest rates range	**1.1% - 2.4%**	2.1% - 2.9%	1.4% - 3.6%

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During fiscal year 2011, the following activity occurred under our stock plans:

	Shares	Weighted Average Grant-Date Fair Value
	(In millions)	
Stock Awards		
Nonvested balance, beginning of year	223	$ 24.76
Granted	114	$ 22.17
Vested	(63)	$ 25.00
Forfeited	(19)	$ 23.97
Nonvested balance, end of year	255	$ 23.59
Shared Performance Stock Awards		
Nonvested balance, beginning of year	30	$ 25.32
Granted	18	$ 22.56
Vested	(13)	$ 25.63
Forfeited	(3)	$ 24.05
Nonvested balance, end of year	32	$ 23.76

As of June 30, 2011, there was $4.5 billion and $467 million of total unrecognized compensation costs related to SAs and SPSAs, respectively. These costs are expected to be recognized over a weighted average period of 3.3 years and 2.5 years, respectively.

During fiscal year 2010 and 2009, the following activity occurred under our stock plans:

(In millions, except fair values)	2010	2009
Stock Awards		
Awards granted	100	91
Weighted average grant-date fair value	$ 23.43	$ 24.95
Shared Performance Stock Awards		
Awards granted	12	10
Weighted average grant-date fair value	$ 24.57	$ 25.93

Following are the fair values of stock plan awards vested during the periods reported:

(In millions)	2011	2010	2009
Total vest-date fair value of stock awards vested	$ 1,521	$ 1,358	$ 1,137
Total vest-date fair value of shared performance stock awards vested	$ 289	$ 227	$ 485

Stock Options

We grant stock options primarily in conjunction with business acquisitions. We granted zero, one million, and one million stock options in conjunction with business acquisitions during fiscal years 2011, 2010, and 2009, respectively. Options generally vest over four and one-half years and expire 10 years from the date of grant.

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Employee stock options activity during 2011 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In millions)		(Years)	(In millions)
Balance, July 1, 2010	187	$ 24.68		
Exercised	(79)	$ 24.91		
Canceled	(15)	$ 28.84		
Balance, June 30, 2011	93	$ 23.21	1.04	$ 312
Exercisable, June 30, 2011	92	$ 23.16	1.04	$ 309

Options outstanding as of June 30, 2011 include approximately two million options that were granted in conjunction with business acquisitions. These options have an exercise price range of $0.01 to $29.24 and a weighted average exercise price of $7.69.

During the periods reported, the following stock option exercise activity occurred:

(In millions)	2011	2010	2009
Total intrinsic value of stock options exercised	$ 222	$ 365	$ 48
Cash received from stock option exercises	$ 1,954	$ 1,839	$ 88
Tax benefit realized from stock option exercises	$ 77	$ 126	$ 12

Employee Stock Purchase Plan

We have an employee stock purchase plan for all eligible employees. Shares of our common stock may be purchased by employees at three-month intervals at 90% of the fair market value on the last day of each three-month period. Employees may purchase shares having a value not exceeding 15% of their gross compensation during an offering period. Employees purchased the following shares during the periods presented:

(Shares in millions)

Year Ended June 30,	2011	2010	2009
Shares purchased	20	20	24
Average price per share	$ 22.98	$ 23.73	$ 20.13

At June 30, 2011, 43 million shares of our common stock were reserved for future issuance through the employee stock purchase plan.

Savings Plan

We have a savings plan in the U.S. that qualifies under Section 401(k) of the Internal Revenue Code, and a number of savings plans in international locations. Participating U.S. employees may contribute up to 50% of their salary, but

not more than statutory limits. We contribute fifty cents for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant's earnings. Matching contributions for all plans were $282 million, $275 million, and $262 million in fiscal years 2011, 2010, and 2009, respectively, and were expensed as contributed. Matching contributions are invested proportionate to each participant's voluntary contributions in the investment options provided under the plan. Investment options in the U.S. plan include Microsoft common stock, but neither participant nor our matching contributions are required to be invested in Microsoft common stock.

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NOTE 21 — SEGMENT INFORMATION AND GEOGRAPHIC DATA

In its operation of the business, management, including our chief operating decision maker, the Company's Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements prepared on a basis not consistent with U.S. GAAP. The segment information within this note is reported on that basis. Our five segments are Windows & Windows Live Division; Server and Tools; Online Services Division; Microsoft Business Division; and Entertainment and Devices Division.

Due to the integrated structure of our business, certain revenue earned and costs incurred by one segment may benefit other segments. Revenue on certain contracts may be allocated among the segments based on the relative value of the underlying products and services. Costs that are identifiable are allocated to the segments that benefit to incent cross-collaboration among our segments so that one segment is not solely burdened by the cost of a mutually beneficial activity. Allocated costs may include those relating to development and marketing of products and services from which multiple segments benefit, or those costs relating to services performed by one segment on behalf of other segments. Each allocation is measured differently based on the specific facts and circumstances of the costs being allocated.

In addition, certain costs incurred at a corporate level that are identifiable and that benefit our segments are allocated to them. These allocated costs include costs of: field selling; employee benefits; shared facilities services; and customer service and support. Each allocation is measured differently based on the specific facts and circumstances of the costs being allocated. Certain other corporate-level activity is not allocated to our segments, including costs of: broad-based sales and marketing; product support services; human resources; legal; finance; information technology; corporate development and procurement activities; research and development; legal settlements and contingencies; and employee severance.

We have recast certain prior period amounts within this note to conform to the way we internally managed and monitored segment performance during the current fiscal year, including moving Microsoft's PC hardware business from Entertainment and Devices Division to Windows & Windows Live Division, Windows Embedded from Entertainment and Devices Division to Server and Tools, and Office for Mac from Entertainment and Devices Division to Microsoft Business Division, as well as implementing intersegment cost allocations between all segments related to the collaborative investment in mobile platform development.

The principal products and services provided by each segment are summarized below:

Windows & Windows Live Division – Windows & Windows Live Division offerings consist of multiple editions of the Windows operating system, software and services through Windows Live, and Microsoft PC hardware products.

Server and Tools – Server and Tools product and service offerings include Windows Server, Microsoft SQL Server, Windows Azure, Windows Embedded device platforms, and Enterprise Services. Enterprise Services comprise Premier product support services and Microsoft Consulting Services.

Online Services Division – Online Services Division offerings include Bing, MSN, and advertiser tools.

Microsoft Business Division – Microsoft Business Division offerings include Microsoft Office, SharePoint, Exchange, Lync, and Microsoft Dynamics business solutions.

Entertainment and Devices Division – Entertainment and Devices Division offerings include the Xbox 360 entertainment platform, including Kinect for Xbox 360, Mediaroom (our Internet protocol television software), and Windows Phone.

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Segment revenue and operating income (loss) were as follows during the periods presented:

(In millions)

Year Ended June 30,	2011	2010	2009
Revenue			
Windows & Windows Live Division	**$ 18,778**	$ 18,792	$ 15,563
Server and Tools	**17,107**	15,390	14,686
Online Services Division	**2,528**	2,200	2,110
Microsoft Business Division	**21,986**	19,345	19,211
Entertainment and Devices Division	**8,716**	6,224	6,416
Unallocated and other	**828**	533	451
Consolidated	**$ 69,943**	$ 62,484	$ 58,437

(In millions)

Year Ended June 30,	2011	2010	2009
Operating Income (Loss)			
Windows & Windows Live Division	**$ 11,968**	$ 12,253	$ 9,372
Server and Tools	**6,453**	5,320	4,627
Online Services Division	**(2,638)**	(2,410)	(1,749)
Microsoft Business Division	**13,827**	11,642	11,153
Entertainment and Devices Division	**1,135**	573	288
Reconciling amounts	**(3,584)**	(3,280)	(3,328)
Consolidated	**$ 27,161**	$ 24,098	$ 20,363

Reconciling amounts in the tables above and below include adjustments to conform our internal accounting policies to U.S. GAAP and corporate-level activity not specifically attributed to a segment. Significant internal accounting policies that differ from U.S. GAAP relate to revenue recognition, income statement classification, depreciation, and amortization of stock-based awards.

Significant reconciling items were as follows:

(In millions)

Year Ended June 30,	2011	2010	2009
Corporate-level activity [(a)]	**$ (4,619)**	$ (4,260)	$ (4,318)
Stock-based compensation expense	**544**	556	753
Revenue reconciling amounts	**632**	366	256
Other	**(141)**	58	(19)
Total	**$ (3,584)**	$ (3,280)	$ (3,328)

(a) *Corporate-level activity excludes stock-based compensation expense and revenue reconciling amounts presented separately in those line items.*

No sales to an individual customer accounted for more than 10% of fiscal year 2011, 2010, or 2009 revenue. Revenue, classified by the major geographic areas in which our customers are located, was as follows:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
United States [(a)]	**$ 38,008**	$ 36,173	$ 33,052
Other countries	**31,935**	26,311	25,385
Total	**$ 69,943**	$ 62,484	$ 58,437

(a) *Includes shipments to customers in the U.S. and licensing to certain OEMs and multinational organizations.*

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Revenue from external customers, classified by significant product and service offerings were as follows:

(In millions)

Year Ended June 30,	**2011**	**2010**	**2009**
Microsoft Office system	**$ 20,730**	$ 17,754	$ 17,998
Windows PC operating systems	**17,825**	18,225	14,653
Server products and tools	**13,251**	12,007	11,344
Xbox 360 platform	**8,103**	5,456	5,475
Consulting and product support services	**3,372**	3,036	3,024
Advertising	**2,913**	2,528	2,345
Other	**3,749**	3,478	3,598
Total	**$ 69,943**	$ 62,484	$ 58,437

Assets are not allocated to segments for internal reporting presentations. A portion of amortization and depreciation is included with various other costs in an overhead allocation to each segment and it is impracticable for us to separately identify the amount of amortization and depreciation by segment that is included in the measure of segment profit or loss.

Long-lived assets, excluding financial instruments and deferred taxes, classified by the location of the controlling statutory company, were as follows:

(In millions)

June 30,	**2011**	**2010**	**2009**
United States	**$ 18,498**	$ 18,716	$ 19,362
Other countries	**2,989**	2,466	2,435
Total	**$ 21,487**	$ 21,182	$ 21,797

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NOTE 22 — QUARTERLY INFORMATION (Unaudited)

(In millions, except per share amounts)

Quarter Ended	September 30	December 31	March 31	June 30	Total
Fiscal Year 2011					
Revenue	**$ 16,195**	**$ 19,953**	**$ 16,428**	**$ 17,367**	**$ 69,943**
Gross profit	**13,056**	**15,120**	**12,531**	**13,659**	**54,366**
Net income	**5,410**	**6,634**	**5,232** [a]	**5,874** [b]	**23,150**
Basic earnings per share	**0.63**	**0.78**	**0.62**	**0.70**	**2.73**
Diluted earnings per share	**0.62**	**0.77**	**0.61**	**0.69**	**2.69**
Fiscal Year 2010					
Revenue	$ 12,920 [d]	$ 19,022 [c]	$ 14,503	$ 16,039	$ 62,484
Gross profit	10,078	15,394	11,748	12,869	50,089
Net income	3,574	6,662	4,006	4,518	18,760
Basic earnings per share	0.40	0.75	0.46	0.52	2.13
Diluted earnings per share	0.40	0.74	0.45	0.51	2.10

(a) *Includes a partial settlement of an I.R.S. audit of tax years 2004 to 2006, which increased net income by $461 million.*

(b) *Reflects an effective tax rate of 7% due mainly to the adjustment of our previously estimated effective tax rate for the year to reflect the actual full year mix of foreign and U.S. taxable income. In addition, upon completion of our annual domestic and foreign tax returns, we adjusted the estimated tax provision to reflect the tax returns filed and recorded an income tax benefit which lowered our effective tax rate.*

(c) *Reflects $1.7 billion of revenue recognized for sales of Windows Vista with a guarantee to be upgraded to Windows 7 at minimal or no cost and of Windows 7 to original equipment manufacturers and retailers before general availability (the "Windows 7 Deferral").*

(d) *Reflects $1.5 billion of revenue deferred to future periods relating to the Windows 7 Deferral.*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Microsoft Corporation:

We have audited the accompanying consolidated balance sheets of Microsoft Corporation and subsidiaries (the "Company") as of June 30, 2011 and 2010, and the related consolidated statements of income, cash flows, and stockholders' equity for each of the three years in the period ended June 30, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Microsoft Corporation and subsidiaries as of June 30, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 28, 2011, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Seattle, Washington
July 28, 2011

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the company's internal control over financial reporting was effective as of June 30, 2011. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Deloitte & Touche LLP has audited our internal control over financial reporting as of June 30, 2011; their report is included in Item 9A.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Microsoft Corporation:

We have audited the internal control over financial reporting of Microsoft Corporation and subsidiaries (the "Company") as of June 30, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2011, of the Company and our report dated July 28, 2011, expressed an unqualified opinion on those financial statements.